

## Oil Outlook

By Imen-Nidhal Boudinar

In spite of multiple unrest factors impacting the oil markets such as the averred or potential disruptions of production (Iran, Nigeria, Russia-Byelorussia oil dispute), the effect of bearish factors linked to warm temperatures in the USA and the bolstering of oil inventories, have led to a drastic drop in crude prices in January totalling a decrease of \$ 8.5/ Bbl compared to December.

Indeed, this downturn is mainly due to:

- A warmer weather in the North East of the US reducing fuel consumption in this key region by nearly 25%, compared to the seasonal average.
- The IEA downward review by 100 000 B/d of the estimated world oil demand for 2007, reflecting the impact of a slack global economy growth and a warmer winter in the North hemisphere.
- Ample stocks levels of refined products in the USA, in particular distillates due to temperatures higher than the normal season.
- A warmer climate in the North hemisphere inducing a drop by nearly 1.4 MB/d of crude oil demand, mainly located in Western Europe ( - 750 000 B/d). Demand in the main consuming countries (USA, Europe, Japan) has been reduced by 300 000 B/d compared to last year.
- Moreover, the downward trend of oil prices has been amplified by the massive reduction of long positions on futures markets.

However, the reasons behind the decline in oil prices in January have been partially offset by upward trends due mainly to:

- A colder weather in the North East of the USA and in Europe.
- The American Administration decision to double the strategic reserves to 1.5 billion barrels by 2017.
- The decline of US distillate stocks by the end of January.
- The persisting political unrest in the Middle East and especially, aggravation of the Iran crisis.
- In addition, the operators concern over the OPEC decision to cut production by 500 000 B/d as of 1st February.

## Energy cooperation

### Mr. Chakib Khelil visits Spain

Mr. Chakib Khelil, Minister of Energy and Mines visited Spain on 7-8 February 2007, within the framework of energy cooperation between Algeria and Spain. He met with the Spanish ministers of foreign affairs, Mr Miguel Angel Moratinos and also the minister of Industry, tourism and commerce, Mr. Joan Clos.

On this occasion, Mr. Khelil has emphasised the richness of energy cooperation between Algeria and Spain given the several projects which have been undertaken with Spanish companies such as the water desalination project, the solar-gas hybrid station in Hassi R'Mel, the Gassi Touil field development and obviously, the Medgaz gasline connecting Beni-Saf to Almeria in Spain.

The discussions concerned also the projects underway of development in



partnership between Sonatrach and the Spanish companies, particularly, the Medgaz project and the Gassi Touil Integrated project.

As a reminder, Algeria- Spain energy cooperation has been at the core of the discussions, further to the visit of Mr. Joan Clos, last November in Algiers.

## Hedging

### Signing of the first ISDA Standard Sonatrach contract

A signing ceremony of the first ISDA Standard Sonatrach contract with Hetco took place at the Sonatrach Head office on 31st January 2007.

The contract has been signed by the Marketing Activity Vice President and the Director of Hetco in the presence of the Executive staff of the Crude oil export Division and the Risk Management Direction.

After formalisation, the contract will enable Sonatrach to achieve trade transactions for its hedging needs on the OTC market.

The ISDA contract is a Memorandum of Master agreement expressing the existence of willingness to set a unique and exclusive legal framework for all transactions on derived products that could be concluded between both



counterparts.

Indeed, it represents a legal framework ensuring an acceptable security level and a significant time saving when the two parties decide to conclude a deal. During the finalisation of a commercial transaction between the two parties, the deal is materialized through the exchange of a simple document called "confirmation" summarizing the commercial data of the deal.

#### The ISDA contract comprises three documents :

- **The Master Agreement:** it sets the general conditions relating to termination procedures, compensation procedures in case of termination, to the sanctions incurred in case of delay or default of payments, to the provisions relating to abandonment to immunity, to the definition of technical and legal terms recommended by ISDA.
- **The schedule to the Master Agreement:** it sets out the particular conditions of the contract, negotiated between both parties, namely: the implementation of not of the Automatic Early Termination, the list of documents to be exchanged between both parties, appointment of the persons entitled to sign the contract and also the persons entitled to execute the transactions.
- **The credit support Annex:** sets out the credit aspects relating to transactions such as: determination of the maximum amount that could be dealt without guarantee (credit limit), identifying the type of guarantee acceptable by both parties (cash or credit letter) and designation of the party in charge of the calculations.

Oil Outlook

HIGHLIGHTS

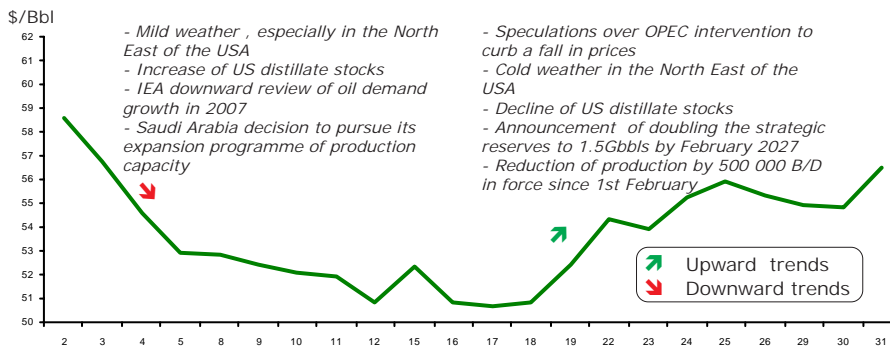
**Saudi Arabia : Upstream development projects to reach a surplus capacity of 3MBD in 2011.**

In order to meet a growing world demand, the state-owned company, Saudi Aramco has launched five mega projects in the upstream sector to boost its production capacity from 9.6 MBD in 2006 to 12.6 MBD by the end of 2009. The major downstream projects, are led by Khurais (+ 1.2 MBD of Arab Light), Manifa (+ 900 000 B/d) and Khursaniyah (+ 500 000 B/d). Two other projects concern the development of the Shaybah fields (+ 250 000 B/d) and Nuayyim (+ 100 000 B/d). This ambitious expansion plan requires an investment of nearly \$ 45 billion in addition to a cost of \$ 35 billion for the joint ventures in the downstream sector. Indeed, the development projects of large integrated refining and petrochemical complexes launched through joint ventures between Saudi Aramco and foreign partners would boost Saudi Arabia refining capacity by almost 50 %, namely by 6 MBD over the next years.

**USA : The US president calls for a 20 % cut of gasoline consumption over the next ten years.**

In his address on the new orientations of energy policy, the US president has proposed to cut gasoline consumption by 20 % over the next decade. This measure will induce a reduction of nearly 10 % of the US crude oil consumption in 2017, namely, 2MBD. US gasoline consumption reached 21.9 MBD in 2005, of which 59% were imported. These actions aiming to reduce gasoline demand are two-fold:

Brent prices in January



Expansion of alternative fuels and reduction of motor fuel consumption.

Indeed, the US President wishes to promote alternative fuels offer and fix a mandatory requirement for a production of 133 billion of renewable fuels by 2007, i.e, five times more than the current objective. While covering hardly 3 % of the US fuel market in 2006, biofuels share would reach 15 % in 2017. In addition, the review of car consumption standards should provide savings of some 32 billion litres of gasoline by 2017. Meeting this objective requires an average consumption reduction of 4 % as from 2010 for cars and 2012 for four-wheel drive vehicles. While promoting a diversification of energy supplies and US oil production, the US president has urged the use of clean-coal technology, solar energy and safe nuclear energy, and doubling the volume of strategic petroleum reserves to 1.5 billion barrels by 2017, in order to preserve the country against potential disruptions of oil supplies.

**Russia : Diversification of export routes to avoid transit countries.**

Following the temporary suspension of gas and crude oil exports (respectively in January 2006 and January 2007), Russia intends to develop new export routes to avoid transit countries and diversify its markets.

Two new export routes for crude oil through Baltic and Pacific. Globally, the state-owned company, Transneft supplied nearly 4MBD in 2006, of which 36 % via the Druzhba system (1.25 MBD).

The Baltic Pipeline System (BPS) constituted the other export routes with 30 % (135 MBD), and the Black Sea ports (30 % or 1.2 MBD).

Both projects aim at expanding transport capacity and are related to the extension of BPS (from 1.48 MBD end 2006 to 2.4 MBD) and the opening of a route to the Pacific with a length of 4000 km and an initial capacity of 1.6 MBD.

Gas Outlook

By Othmane Irain

North Europe

In January 2007, natural gas Spot prices in UK continued declining compared to the previous month due to the weakness of demand which registered a level below the seasonal average. Indeed, opening the month around 28 pence/th, NBP Day Ahead prices maintained a downward trend and settled around 24 pence/th by the end of the third week in January. Last week falling temperatures have significantly impacted demand, which hit record high of 400 Mcm/day for the first time in winter during three successive days (23,24,25 January 2007). In spite of a high demand, the highest since 24th February 2005, Day Ahead prices rose slightly to 30 pence/th. The ample supply eased the system thus avoiding stock piling which remains relatively high for the season. By the end of the month, rising temperatures have put pressure on Day Ahead prices that restarted dropping and finished at 22

pence/th at the end of the month.

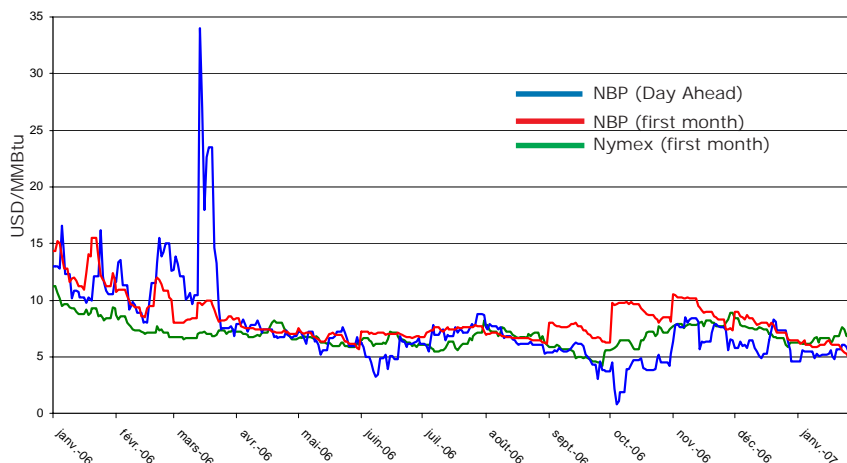
On Zeebrugge market, Day Ahead prices registered the same trend as NBP prices but with an average level slightly lower by nearly 0.15 pence/th.

Opening the month in forward flow, the Interconnector registered in January

2007 nine (09) direction changes with a net average flow of -39 GWh. It is worth noting that imports from Zeebrugge have significantly increased and reached 403 GWh on 25th January against 103 GWh four days before.

(Continued page 4)

Gas - Evolution of UK and US prices



## E v e n t s

### Interview

*In its edition of 1st February, the information newsletter, Arab Oil & Gas published an interview with Mr Chakib Khelil, Minister of Energy and Mines. Excerpts :*

#### The main priorities for 2007

The keys words for 2007 are: training, research & development and preparing to hand over leadership.

- The restructuring of the Ministry is under way so as to focus on the political and strategic aspects of the sector

- Nuclear, a new activity: for this purpose, we are setting up a new directorate. We are embarking on a long-term electronuclear project.

- Efforts are undertaken in new energy and renewable with a new contract for a solar-gas power station with a capacity of 150 MW.

- We are giving great importance to energy efficiency with the specialised agency "Aprue"

- The major seawater desalination program is under way of completion and will provide a global capacity of 2.2 million cm per day, by 2009.

- Several projects of power generation installations have been tendered. A call for bidding for maintenance and servicing contract for the existing or projected installations has been planned.

- 2007 will be enhanced by the promotion of the mining potential. An international call for tenders for 18 perimeters has been launched.

#### Amendments to th hydrocarbon law

- Algeria attractiveness has not been diminished

- The new tax on windfall profits concerns the contracts concluded pursuant to the Hydrocarbon law n° 86/14

- The main reasons behind these amendments: mainly the rising in oil prices and the consequences of that.

- The strong growth of oil incomes has not come along with a fast development of investment opportunities, so, it is logical to reserve a part of these revenues to the future generation

- We are witnessing a surge of energy nationalism in many countries including the industrialized countries.

- We have registered a significant number of discoveries in 2006 and presently, priority is given to their delineation.



#### Downstream Investments

- It is necessary to maintain and ensure servicing to the existing petrochemical installations

- In 2007, we intend to award several petrochemical projects: production of aromatics in Skikda, production of olefins in Skikda, propane and polypropylene dehydrogenation in Skikda, steam cracking in Arzew, oil fuel cracking in Skikda, methanol complex in Arzew and three ammonia and urea units, of which two in Arzew. The main downstream projects also include the refinery in Tiarat.

- The minimum of 51 % percentage provided for in the hydrocarbon law does not apply to petrochemicals.

#### Export gas pipelines

- Medgaz has been launched and Galsi is planned for 2008 and, even before.

- The Nigeria-Algeria gas pipeline project is progressing well. The European Commissioner for Energy has qualified the project as strategic for the European Union. The project is of common interest to the three relevant countries: Nigeria, Niger, and Algeria- and to the EU. It is positive from the environment and profitability point of view.

#### Memorandum of Cooperation Agreement between Sonatrach and Gazprom

- The agreement between Gazprom and Sonatrach is the kind of normal agreement that exists between two commercial operators who offer complementarities in different sectors.

- Besides this, Sonatrach has also signed memoranda of agreements with foreign groups such as Shell and Statoil.

- There is no question of gas OPEC.

#### OPEC and oil prices

- The member countries are going to implement scrupulously the decisions that have been taken. OPEC supplies are going to fall as from February, and this should contribute to boost prices upward.

- Prices between \$ 50-\$ 60 per barrel are reasonable prices, both for the producers and the consumers.

### Shipping

#### Sonatrach/Marketing Activity charters a VLCC for 20 years

On 28th February, a Charter agreement was signed for 20 years between Sonatrach - Marketing Activity, the charterer, and Sonatrach Petroleum Corporation BVI, operator of the VLCC oil tanker to be delivered by Nacks Shipyard by the end 2007.

As a reminder, Sonatrach Petroleum Corporation. And Kawasaki Shipbuilding Corp. set up in June 2006, a joint venture denominated NOVSL (New Ocean Shipping Venture Ltd). The joint venture owned in equal shares by both associates ( 50-50), ordered the VLCC tanker to the Chinese shipyard builder (Market News n°28 - July 2006).



### Italian gas market

#### Sonatrach sign two long term sale agreements

Sonatrach has concluded two long term sale agreements for a total volume of 3 bcm / year committed to the Italian market via the Enrico Mattei gaspipe as of 2008.

The first agreement concluded with the Italian company Enel, relates to a volume of 1 bcm/year in addition to the 6 bcm/year of Algerian gas supplied to Enel. Sonatrach and Enel have also teamed in the Galsi project and signed in November 2006 a agreement for the supply of 2 bcm/year to be directly traded on the Italian market.

This agreement is part of the penetration strategy in the international gas

downstream, which has already been implemented in the UK through the affiliate Sonatrach Gas Marketing and will contribute to the security of natural gas energy supplies to Italy.

Italy is the main export market for Sonatrach's natural gas with a volume of over 27 bcm/year. This position should be expanded as of 2008 with the supply of additional volumes of 6 bcm/year through the execution of two agreements and also contracts already concluded with: Edison, Mogest, Begas and WorldEnergy within the framework of the first extension phase of the capacity of the Trans Tunisian Pipeline Company gas line.

### Medgaz project

#### Signing of construction contracts for the sub-sea section

Medgaz Lt has announced the signing of the contracts for the construction of the sub-sea gasline. Five companies have been selected.

**1. Line pipe manufacturing:** Mitsui and Sumitomo will manufacture a total of 226 km of linepipe at their Japanese installations.

**2. Compressors:** The company Rolls Royce will be in charge of the manufacturing and installation of three compressors.

**3. Sub-sea gas line laying:** The contract awarded to Saipem S.p.A.

**4. Compressor station and receiving terminal:** Both facilities were awarded to the Spanish-French consortium Técnicas Reunidas-Amec Spie under a turnkey contract. The construction works should start during the second half 2007 and come on stream in 2009.

**Port activities**

■ **Mr Chawki Mohamed Rahal**, Vice President - Marketing Activity, inaugurated on 26th February the Skikda East Port unit which will regroup in a newly constructed premise the two former branch services of the Marketing Activity (gas and liquids), in charge of managing the whole trading activities at the Skikda port.

*New East Port Uni*



■ **Sonatrach Marketing Activity** registered in February a record level of loading operations of VLCC . Indeed, six (06) oil vessels ( VLCC) with a unit capacity of 260 000 metric tons , namely , equalling to nearly 2 million barrels, proceeded to the loading of crude oil from post B3 and Sea Port Moor ( Buoys) at Arzew.

**Gas Outlook**

*(continued from page 2)*

By the end of the month, the Interconnector was still operating in reverse flow.

First Month NBP prices (February contract) have lost nearly 8 pence/th since the beginning of the month and closed around 23 pence/th by the end of the month. First Month prices have lost in average 10 pence/th compared to the previous month.

Similarly, First Month prices on Zeebrugge registered in average a level of 29 pence/th against nearly 40 pence/th a month earlier, namely, falling by 11 pence/th.

After resisting easily to the strong demand on 23,24, 25 January, a demand which is above the seasonal average, the British system has shown it was able to meet the end of winter demand leading to a strong pressure on forward prices which fell dramatically to settle, at the January 2007 closing at 22.04 pence/th for the ICE contract ( Q2-2007) and 21.74 pence/th for ICE contract (Q3-2007). ICE contract prices (Q1-2008) closed at 42.82 pence/th.

**USA :**

In January 2007, natural gas prices in the USA rebounded compared to the previous month due to a strong fall of

temperatures especially on the North Eastern Coast.

Thus, First Month prices (February 2007 contract) shifted from \$ 6.25 / MMBtu at the beginning of the month to \$ 6.91/MMBtu at the closing, hitting a level of \$ 7.60 /MMBtu on 23rd January. Weather forecasts announcing falling temperatures for the coming days with significant impact on prices during the next month.

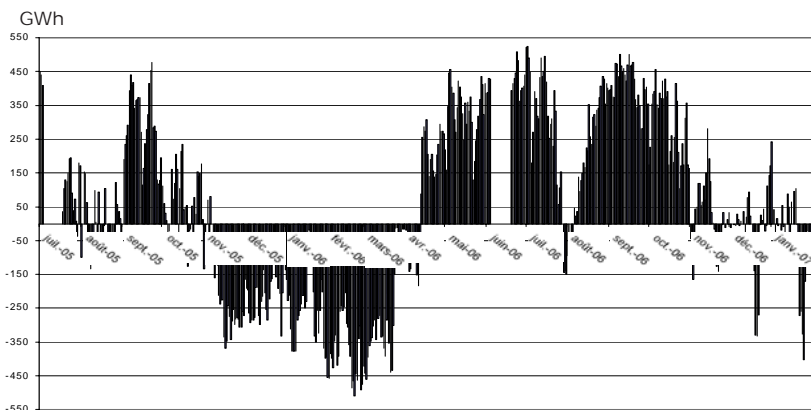
**Stock Exchange:**

The £/\$ parity continued its downward trend closing at 1.9574 on 31st January 2007 against 1.9728 at the start of the month.

**Co2 market :**

Co2 quota prices for the first phase ( 2007 contract) maintained their downward trend and closed at 2.34 euros /EUA on 31st January against 5.64 Euros/EUA at the start of the month. Quota prices for second phase ( 2008 and 2009 contracts) have resisted to the bearish trend particularly, after the European Commission decided to reduce the quota ceiling of some countries which have submitted their national allowance plans. Prices for these contracts settled in average at nearly 16 Euros/EUA.

**Evolution of Interconnector gas flow**



**In brief**

■ **Great Britain : Petrolus takeover on BP Coryton refinery.**

BP group unveiled plan to sell Coryton refinery having a capacity of 172 000 B/D and located Southeast of England, to the Swiss company Petroplus for \$1.4 billion. The acquisition includes a pertaining terminal and BP bitumen activities in the UK. The deal will be finalised in first half 2007.

■ **China striving to reduce its oil consumption**

According to the latest data published by the Chinese Ministry of Economy, China imported 2.8 MBD of crude oil in 2006, i.e, a further 10 % compared to 2005. With a domestic consumption hitting 6 MBD and a stagnating local production, China is more and more reliant on oil imports, which cover nearly 48 % of its needs. In order to reduce its energy dependency, China has set forth a quinquennial plan for 2006-2010 to reduce petroleum domestic consumption by 20%.

■ **Peru : Peru LNG and Chicago Bridge & Iron Company N.V. (CB&I) signed on 23rd January 2007, an EPC contract for US \$ 1.5 billion relating to the construction of a liquefaction unit with a capacity of 4.45 MT/year. As a reminder, Peru LNG is a consortium regrouping Hunt Oil, SK Corporation and Repsol YPF. The unit will be supplied from block 56 of the Camisea field and LNG produced will be committed to the US market (West coast) and / or Mexico.**

■ **Trinidad and Tobago**, the largest supplier of liquefied natural gas (LNG) to the United States, hopes to conclude a feasibility study on constructing a new LNG train, an official said. The new train, which would be the country's fifth and is referred to as Train X, has been under discussion for a couple of years. Trinidad's Atlantic LNG, set up in 1995, has invested \$3.6 billion in four LNG trains, which have a total production capacity of close to 15 million metric ton(ne)s per year. The United States currently imports close to 80 percent of its LNG supplies from Trinidad and Tobago, the world's fifth largest exporter of LNG, and the U.S. government's energy forecasting agency last month predicted LNG imports would rise 35 percent in 2007 and another 39 percent in 2008.